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TAGS: ECON PREL FAIR RS

SUBJECT: AEROFLOT "BUYS" A350 AS UAC AND EADS CUDDLE UP

REF: MOSCOW 1145

Classified By: Ambassador William J. Burns by reason 1.4 b/d.

¶1. (C) Summary. In a March 22 meeting with Airbus, Aeroflot signed a memorandum of understanding to purchase 22 Airbus 350XWBs for delivery between 2014 and 2017. In a separate March 22 ceremony EADS promised the Russian United Aircraft Corporation (UAC) five percent of the airframe work of the A350 in exchange for a Russian investment of 10 billion euro (\$13.4 billion) in A350 development costs. EADS and UAC also agreed: to set up a Dresden, Germany-based joint venture to convert A320 passenger jets to cargo planes; to continue cooperation on transport aircraft; and for UAC to purchase a stake of Airbus' engineering center in Russia. While these steps all appear to bring Airbus closer to a final sale to Aeroflot, a number of well-placed officials tell us that far from closing the door on Boeing, this week's events actually set the stage for a possible Boeing sale. End summary.

¶2. (C) As foreshadowed at his March 15 press conference (reftel), Aeroflot CEO Valery Okulov yesterday signed a (non-binding) memorandum of understanding to buy 22 Airbus A350s, worth approximately \$4.4 billion, with delivery dates between 2014-2017. An MOU carries less weight than a letter of intent, both of which are fluff until a final contact is negotiated and signed and the initial deposit is paid. Aeroflot's MOU was delivered to Airbus at a private meeting, without public fanfare. Neither Aeroflot executives nor the Aeroflot website have mentioned anything about this letter. The story was not carried widely in the Russian press.

¶3. (C) EADS and UAC held a joint signing ceremony yesterday to announce a raft of UAC-EADS cooperative undertakings. Witnesses tell us that the ceremony was surprisingly low-profile and GOR officials were not present. EADS Co-CEO Tom Enders signed deals with UAC's Director-General Aleksey Federov to strengthen cooperation between the two companies. Russia will help cash-strapped EADS by purchasing a 10 billion euro (\$13.4 billion) stake in the research and development costs of the A350. In exchange, UAC will get five percent of the airframe manufacturing work. EADS and UAC will expand their transport aircraft and cargo-conversion cooperation beyond the previously announced Moscow-based manufacturing deal to a joint-venture in Dresden, Germany.

¶4. (C) Comment: We find it interesting that while Boeing has an initialed contract from Aeroflot and has collected a deposit, it has never counted the 22 Dreamliners in question as "sold" to Aeroflot, while Airbus, with neither a contact nor a deposit in hand is widely publicizing the idea the deal as final. Aeroflot's own silence on the issue speaks volumes. It also reinforces what we have been hearing from

many sources over the past two weeks, namely, the Airbus "deal" marks not the end, but the opening, of Boeing's window of opportunity. Federov told Boeing's CEO Scott Carson last week that Boeing's deal with Aeroflot was "much farther along" than with Airbus. Even today the Ambassador was told by Presidential Foreign Policy Advisory Sergey Prikhodko and Aeroflot shareholder Aleksandr Lebedev that the Boeing deal is still very much in play -- not as an alternative to an A350 purchase, but as a compliment to it with a 787 acquisition possibly serving as a "bridge" to purchases of A350s, which may well not be ready for delivery in 2014 (if ever). End Comment.

BURNS